

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-04 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-06 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 DODE-00 PM-03 H-01 L-01

NSC-05 PA-01 PRS-01 SS-20 USIA-06 IO-04 DRC-01 /084 W

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R 111422Z OCT 74

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 8443

INFO COMSOLANT

LIMITED OFFICIAL USE BUENOS AIRES 7592

COMSOLANT PASS AMB HILL

E.O. 11652: N/A

TAGS: EINV, AR, US

SUBJECT: SITUATION OF AMERICAN COMPANIES IN ARGENTINA: GENERAL
MOTORS

REF BA 7404

1. REGIONAL VICE PRESIDENT OF GENERAL MOTORS (GM), JOSEPH SANCHEZ, CALLED ON AMBASSADOR HILL OCT 8, AND TOLD HIM THAT GM/ARGENTINA IS IN A DESPERATE POSITION. THE COMPANY LOST OVER \$15 MILLION DOLLARS THIS YEAR, BASED ON PROJECTIONS FROM FIRST 9 MONTHS. HE SAID THAT ON HIS RECENT TRIP TO THE US HE HAD SPOKEN TO THE NEW CHIEF EXECUTIVE OFFICER OF GM, MR MURPHY, AND THAT GM/DETROIT HAD MADE DECISION THAT THERE WILL BE NO FURTHER COPROPRATE ASSISTANCE TO GM/ARGENTINA. FOR GM/ARGENTINA IT IS NOW SINK OR SWIM IN ARGENTINA. THIS MEANS NOT ONLY NO MORE CORPORATE MONEY COMING INTO ARGENTINA TO COVER LOSSES, BUT ALSO NO MORE CORPORATION-GUARANTEED FOREIGN LOANS. SANCHEZ SAID THAT HIS MAIN PROBLEM NOW IS TO FIND SOURCE OF FINANCING IN FACE OF GOA RESTRICTIONS ON LOCAL FINANCING WHICH DISCRIMINATE AGAINST
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FOREIGN OWNED FIRMS. HE DOES NOT KNOW HOW HE IS GOING TO MEET

NEXT PAY-ROLL DUE ON OCT 20. HE ADDED THAT HE NOW OWES ABOUT \$5 MILLION DOLLARS TO SUPPLIERS AND CANNOT PAY THAT EITHER. HE SAID GM HAD REQUESTED GOA AUTHORIZATION FOR A 16.5 PERCENT PRICE INCREASE, AND HAD BEEN GRANTED ONLY 11 PERCENT. HE SAID THAT THEY HAD RECENTLY BEEN FORCED TO GRANT A 20 PERCENT WAGE INCREASE OUTSIDE OF SO-CALLED "SOCIAL PACT" (AND THEREFORE NOT RECOGNIZED BY GOA), WHICH WILL INCREASE THEIR WAGE BILL ENOUGH TO OFFSET 5 PERCENTAGE POINTS OF THE 11 PERCENT PRICE INCREASE. THE 16.5 PERCENT INCREASE ORIGINALLY REQUESTED WOULD HAVE PUT GM ONLY AT THE BREAK-EVEN POINT, SO NOW WITH ONLY ABOUT 6 PERCENT EFFECTIVE PRICE INCREASE THEY ARE STILL LOSING CONSIDERABLE MONEY WITH EVERY CAR THEY SELL, AND THEY SIMPLY CANNOT KEEP THIS UP.

2. HE SAID HE HAD EXPLAINED PROBLEMS TO ECONOMY MINISTER GELBARD AND SECRETARY OF INDUSTRY PAENZA, BUT WITH NO SIGNIFICANT RESULTS. HE SAID THAT ON ONE OCCASION WHEN HEADS OF MOST AUTOMOBILE COMPANIES (US AND FOREIGN) CALLED ON PAENZA REQUESTING ADEQUATE PRICE INCREASES, PAENZA LISTENED TO THEIR EXPOSITION, THEN LEFT THE ROOM, WHILE THEY WERE HARANGUED FOR OVER AN HOUR BY LEADERS OF THE AUTOMOBILE WORKERS' UNION. LATTER MADE WHAT AUTOMOBILE EXECUTIVES CONSIDER PREPOSTEROUS CLAIM THAT ALL AUTOMOTIVE COMPANIES IN ARGENTINA EXCEPT ONE (IKA-RENAULT) ARE MAKING PROFITS AT CURRENT PRICES. IN ORDER TO ARRIVE AT THIS CLAIM, THEY REFUSED TO TAKE INTO ACCOUNT COST OF BORROWING MONEY ABROAD, ILLEGAL (BUT NECESSARY) UNDER-THE-TABLE PAYMENTS TO SUPPLIERS, COSTS OCCASIONED BY GO-SLOW STRIKES BY UNIONS, ETC. AFTER THIS PERFORMANCE, PAENZA RE-ENTERED THE ROOM AND TOLD EXECUTIVES THAT, IN VIEW OF UNION ATTITUDE, HE COULD NOT GRANT FULL PRICE INCREASES REQUESTED.

3. MR SANCHEZ EMPHASIZED THAT SOLUTION FOR GM/ARGENTINA MUST COME SOON, OTHERWISE TEY WILL BE FORCED TO DISCONTINUE OPERATIONS. FINDING SOME LOCAL FINANCING WOULD PERMIT THEM TO CONTINUE FOR A WHILE. AN ALTERNATIVE, WHICH HAS BEEN OFFERED TO THE GOVERNMENT, IS SIMPLY TO SELL OUT TO THE GOVERNMENT. HE SAID THAT THE GOVERNMENT HAD TURNED THIS DOWN BECAUSE IT DID NOT WANT TO TAKE OVER PRIVATE ENTERPRISES. (COMMENT: THE GOVERNMENT HAS, IN FACT, TAKEN OVER OR "INTERVENED" MORE THAN 150 PRIVATE ENTERPRISES WHICH WERE IN FINANCIAL OR OTHER DIFFICULTIES.)

4. MR SANCHEZ TOLD AMBASSADOR HILL HE WAS WELCOME TO USE THE GM LIMITED OFFICIAL USE

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CASE AS AN EXAMPLE IN ANY DISCUSSIONS HE MIGHT HAVE WITH GOA OFFICIALS ON THE SUBJECT. THE AMBASSADOR INFORMED SANCHEZ THAT ON AFTERNOON OF SAME DAY HE HAD SCHEDULED AN INTERVIEW WITH SECRETARY PAENZA, AND WOULD USE GM CASE AS EXAMPLE, WHICH HE SUBSEQUENTLY DID (SEE SEPTTEL). DECON 10/10/77.
MONTLLOR

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